Democrats back fourth Bush tax cut for wealthy, business

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In an action that exemplifies the prostration of the Democratic Party before the Bush administration and corporate wealth, the vast majority of Democratic senators and congressmen voted with the Republicans to approve a $146 billion tax cut bill proposed by the White House. The legislation passed the Senate September 23 by a near-unanimous vote of 92-3, while the House approved the bill on the same day, by a margin of 339-65.

Democratic presidential candidate John Kerry and vice presidential candidate John Edwards did not leave their campaigns to return to Washington for the vote, but both indicated they would have voted for the bill. Kerry issued a statement that tried simultaneously to criticize Bush and endorse the fiction that Bush's tax cut would aid working people, declaring: "Millions of American families are being squeezed by the weak Bush economy, falling incomes and rising health costs, and we should extend middle-class tax breaks to help them."

Like the three previous tax bills pushed through by the Bush administration and the Republican congressional leadership—in 2001, 2002 and 2003—the latest legislation uses modest cuts for working class and middle-class families as a smokescreen for far more generous benefits lavished on the wealthy and on favored business interests.

The bill extends to 2009 the $1,000-per-child tax credit, which would otherwise fall to $700 next year. It also extends an expansion of the 10 percent income-tax bracket until 2010, and a tax break for two-income married couples until 2008. All three tax breaks were adopted as part of Bush's original 2001 package, and were deliberately scheduled to expire at the end of 2004 to provide a vehicle for new tax breaks for the wealthy on the eve of the next presidential election.

Among the tax breaks piggy-backed on this extension of "middle-class" tax benefits are $13 billion in business tax breaks for a variety of purposes, ranging from subsidies to companies that use wind-generated energy to deductions for corporate research and development.

Another $22.6 billion will benefit an upper-income layer of the middle class, those with family incomes of $150,000 or more, who would otherwise be subject to the alternative minimum tax (AMT), a tax enacted in the 1970s to insure that wealthy individuals did not use various tax credits to evade taxation altogether. Because the AMT is not indexed to inflation, a sizeable layer of upper-income middle-class families now fall under its provisions, and that number will increase substantially over the next decade.

The tax cut legislation had a second purpose, besides continuing the looting of the federal treasury by the wealthy. It completes the process of locking in all of the tax cuts enacted during Bush's first term through the end of 2008. This means that if Kerry wins the election and succeeds Bush in the White House, he will face a federal budget with an enormous built-in deficit that will be a fixture throughout his entire first term in office. Kerry's endorsement of the bill thus amounts to an acknowledgment in advance that the Democratic candidate's promise of a major health care initiative will be scrapped soon after he takes office.

The combined impact of all the new tax provisions has not yet been precisely calculated. But one preliminary study by the Center on Budget and Policy Priorities (CBPP), a well-established domestic policy think tank, found that households in the middle fifth of the income spectrum would receive an average tax cut of $169 in 2005. Households in the top fifth would get an average tax cut of $1,196, while households with incomes between $200,000 and $500,000 would receive an average of $2,172. Lower-income families will gain virtually nothing from the new law.

In terms of total benefits received, households in the top 10 percent will receive 44 percent of the additional income in 2005. Households in the top 20 percent will receive 68 percent of the additional income, while households in the middle 20 percent of households will receive only 10 percent of the total. As the CBPP noted ironically, this is “a peculiar outcome for a ‘middle-class’ tax-cut bill.”

This distribution of the tax cuts is a deliberate policy choice. In the case of the $22.6 billion from a one-year postponement of the alternative minimum tax, 96 percent will go to the top one fifth of households. The tax break for two-income married couples will extend 72 percent of its benefits to the same top fifth.

The benefits for middle-income families come mainly from the extension of the child tax credit. An effort to make this credit available to low-income families who do not pay income taxes—essentially the bottom third of the income spectrum—was defeated by adamant Republican opposition. Although the cost was trifling in terms of the overall size of the bill, between $4 billion and $7 billion over 10 years, right-wing congressmen and senators insisted that such a provision would amount to reestablishment of welfare payments to the poor.

Meanwhile, “welfare payments” to corporate America continue to skyrocket. According to a study released by Citizens for Tax Justice, a liberal policy group partially funded by the AFL-CIO, the effective tax rate for 275 of the largest US corporations has fallen 20 percent since 2001, despite a rise in pretax profits of 26 percent over the same period.

Some 82 of the 275 companies, all members of the Fortune 500, paid zero or less in federal income taxes in at least one of Bush’s three years in the White House. Twenty-eight of these companies paid zero or less for the entire three-year period, during which they raked in profits of $45 billion. These include Pepco Holdings, ITT Industries, Prudential Financial, Unisys, Boeing, Fluor Corporation and CSX. Treasury Secretary John Snow is the former CEO of the CSX railroad.

Corporate tax receipts are at their lowest level in 20 years as a proportion of the economy. The 275 companies studied had more than $1.1 trillion in profits over the past three years, and paid only $200 billion of it in corporate income taxes, for an effective tax rate of 18.4 percent—barely half the 35 percent rate at which corporate income is supposedly taxed. The effective tax rate has fallen from 21.4 percent in 2001 to only 17.2 percent in 2002 and 2003.

Loopholes and tax subsidies cut taxes for these giant corporations by $175 billion over three years, with half of the total tax breaks going to just 25 companies. General Electric was the biggest winner, netting $9.5 billion in tax breaks since Bush took office. It was followed by SBC Communications with $9 billion, Citigroup, IBM, Microsoft and AT&T, with $4.6 billion each, ExxonMobil at $4.5 billion and Verizon at $4.2 billion.

Despite the claim that such tax breaks would encourage investment and “grow the economy,” the 25 companies that collected the lion’s share of the subsidies actually reduced their total investments by 27 percent from 2001 to 2003—a much bigger reduction than that carried out by companies which did not profit from such large tax breaks.

The industry that recorded the lowest effective tax rate was aerospace and defense—which has also profited enormously from lucrative new defense contracts fueled by the Bush administration’s “war on terror.” The weapons industry paid only 1.6 percent of its profits in federal income taxes over the last three years.